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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1964

No. 674

JACUZZI BROS., INC.,
Petitioner,

vs.

LANDON, INC.,
Respondent.

INTERNATIONAL MANUFACTURING CO., INC., et al.,
Petitioners.

vs.

LANDON, INC.,
Respondent.

PETITION FOR REHEARING

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PETITION FOR REHEARING

Petitioners pray that this Court grant a rehearing of its order of January 25, 1965, denying their petition for a Writ of Certiorari, and they further pray that a Writ of Certiorari issue to review the judgment of the Court of Appeals for the Ninth Circuit in the above-entitled cases as prayed for in the denied petition.

NEW QUESTIONS PRESENTED

The following new questions are presented in the face of certain facts, set forth hereinafter, which were not brought out in the denied petition, and in view of the very recent decisions of two federal district Courts. The district Court decisions are: (1) *Hazeltine Research, Inc. v. Zenith Radio Corp.*, Northern District of Illinois, Eastern Division, January 25, 1965,[1] and (2) *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, Eastern District of Michigan, decided June 25, 1964, reported for the first time at 143 USPQ 405 on December 21, 1964, and now under appeal solely on the misuse issue before the Court of Appeals for the Sixth Circuit.[2]

THE FIRST NEW QUESTION

Does a patent licensor commit a *per se* violation of the antitrust laws when he attempts to coerce a prospective licensee into accepting the licensor's standard package license of patents?

THE SECOND NEW QUESTION

Does a patent licensor's admitted policy of requiring package licensing of its patents amount to an unlawful coercive practice where: the licensor offers its single and

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[1] A copy of the unreported findings of fact and conclusions of law with respect to antitrust issues is appended hereto as Appendix A.

[2] A copy of the *Rocform* decision is appended hereto as Appendix B.

standard form of package license agreement to a prospective licensee; the prospective licensee refuses to enter into the agreement; and the licensor then sues the prospective licensee for infringement of one or more patents of the package?

It is respectfully submitted that the foregoing questions do not amount to subsidiary questions which are fairly comprised within any of the four questions presented in the denied petition.

THE RECENT DECISIONS

In the *Hazeltine* case, the Court found patent misuse and antitrust violation upon the following facts. Hazeltine used a standard form of package license for hundreds of patents. Hazeltine offered the package license to Zenith and the offer was refused. Suit for patent infringement followed. The Court concluded:

> ". . . Whatever may be the asserted reason or attempted justification of Hazeltine, its effort to compel defendant to accept a package of patents involved the use of one patent or group of patents as a lever to compel the acceptance of a license under others. Such a licensing scheme under applicable decisions of The Supreme Court is illegal and constitutes a misuse of the patents involved."[3]

In the *Rocform* case, the Court found patent misuse upon the following facts. Rocform used a standard form of package license for a small number of patents. Rocform

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[3]From Conclusion of Law No. 5, Appendix A hereto, page 22.

offered this standard package license to Acitelli-Standard and the license was refused. Suit for patent infringement followed.

SUPPLEMENTAL STATEMENT

As pointed out in the denied petition, Respondent is contractually obligated to follow a policy of package licensing of the two patents in suit and it has consistently followed that policy by way of a standard form of license. A license under both patents was offered to Petitioner, International, and was refused.[4] Petitioner refused the license because it had been advised by counsel that one of the two patents was invalid.[5]

As the opinion of the Ninth Circuit indicates,[6] Petitioners, by way of counterclaims, sought damages and injunctive relief against Respondent under the antitrust laws.

The trial Court found that Respondent had not committed any acts in restraint of trade or commerce and that it had not committed any acts which would monopolize any part of trade or commerce not permitted by law[7] and

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[4]Finding No. 57, Appendix to Petition for Writ of Certiorari, page 94.

[5]Letter of December 15, 1959, the day before suit was filed against International, from Frank A. Neal, counsel for Petitioners, to Jack E. Hursh, counsel for Respondent, forming part of Exhibit 33; the text of the letter is reproduced as Appendix C hereto.

[6]Page 4 of Appendix to Petition for Writ of Certiorari.

[7]Findings of Fact 81 and 93, at pages 100 and 59, respectively, Appendix to Petition for Writ of Certiorari.

concluded that Respondent was entitled to judgments dismissing the counterclaims.[8]

These findings of fact and conclusions of law were specified in Petitioners' statements of points on appeal as being clearly erroneous and based upon either misapplication of the pertinent legal standards or the failure to properly consider those standards.

Petitioners did not waive or abandon their antitrust counterclaims. These counterclaims formed part of the subject matter on appeal to the Court of Appeals for the Ninth Circuit.

REASONS FOR GRANTING REHEARING

This Court has held that mandatory package licensing, or block booking, of copyrights constitutes a *per se* violation of the antitrust laws. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-9 (1948); *United States v. Loews, Inc.*, 371 U.S. 38, 47-48 (1962).

Prior to the recent holding by the Court in *Hazeltine*, no court had squarely held in any reported decision known to Petitioners' counsel that mandatory package licensing of patents constituted a *per se* antitrust violation.

Petitioners submit that Respondent has violated the antitrust laws in the same way that the defendants in *Hazeltine*, *Paramount*, and *Loews* did. Hazeltine used the monopoly power of some of the patents in its package

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[8]Conclusions of Law 44(a) and 45(a), at pages 111 and 69, respectively, Appendix to Petition for Writ of Certiorari.

to attempt to coerce Zenith into taking a license under patents which Zenith did not want. Paramount and Loews used the monopoly power of some of the copyrights in their "blocks" to coerce theatres and television stations into booking the entire blocks of copyrighted films. Each of these activities amounted to an antitrust violation because monopoly power was used as a lever to accomplish something beyond the proper scope of the monopoly power.

Respondent used the monopoly of the Pace patent as a lever to attempt to coerce Petitioner into taking a license under both the Pace and Cavenah patents. Respondent may have been entitled to accomplish its end of licensing under both patents, but when it used its monopoly position under the Pace patent as the means to that end it unlawfully enhanced the lawful monopoly of the Pace patent.

PATENT MISUSE

The decisions in the *Hazeltine* and *Rocform* cases, Appendices A and B hereto, have crystallized the conflict between the Ninth Circuit in the present cases and the Third Circuit in *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 729, cert. denied 361 U.S. 902, rehearing denied 361 U.S. 973. Both the Ninth Circuit and the Third Circuit in *Securit* agree that a policy of package licensing of patents amounts to patent misuse where its effect is the use of one patent to attempt to coerce a prospective licensee into taking a license under another patent. The wrong is the coercion or the attempt to coerce.

The Third and Ninth Circuits are in conflict on the question: "What facts show coercion?" The Third Circuit in *Securit* held that an attempt to coerce is shown merely by the making of the package licensing mandatory, but the Ninth Circuit held in the cases at bar that, even though package licensing is mandatory, misuse is not to be found in the absence of additional proof that the mandatory policy had an actual coercive effect.

It is at this point that the *Hazeltine* and *Rocform* cases enter into the conflict between the Third and Ninth Circuits. In *Hazeltine* and *Rocform*: (1) the licensor had a standard form of package license agreement; (2) the licensor offered that package license to a prospective licensee; and (3) the licensor sued the prospective licensee when the package license was refused. The Courts in *Hazeltine* and *Rocform* held that these facts proved mandatory package licensing misuse because they proved coercion or the attempt to coerce.

Similar facts of coercion or the attempt to coerce are present in this case: (1) Respondent had but a standard form of package license to offer; (2) it offered this license to Petitioner, International; and (3) Respondent sued International when the package license was refused. International's refusal to take a license with respect to one of the two patents of the package was put upon the basis of counsel's advice that the patent in question (Cavenah) was invalid (Appendix C hereto).

Petitioners urged to the Ninth Circuit that these facts showed coercion or the attempt to coerce but the Court dismissed the contention as being based upon a hypo-

thetical set of facts "since both the Cavenah and Pace patents have been found to be valid."[9] The answer to this is two-fold : (1) the patents had not been adjudicated to be valid at the time the attempt at coercion took place; and (2) even if the two patents were valid Respondent was guilty of misuse when it used one in the attempt to coerce licensing of the other.

The Court below purported to distinguish the cases at bar over the *Securit* case on the theory that Respondent's patents relate to a single product. It should be noted that the same can be said of the patents of Hazeltine and Rocform. Hazeltine offered to license its package of patents for use in a single distinct product, a television receiver, and Rocform offered to license its package of patents for use in a single product, a system for erecting concrete structures. This does not excuse the mandatory package licensing policy, however, because neither the patent laws nor the antitrust laws authorize the use of one patent as a lever to coerce a licensee into taking a license under another patent.

REASONS FOR PRESENTING THE NEW QUESTIONS

Since the Petitioners did not raise the two new questions in the denied petition, the Court is entitled to know Petitioners' reasons as to why this was so.

As to the first new question, on January 25, 1965, the date of denial of the denied petition, a federal Court for the first time in any reported decision known to Peti-

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[9]Appendix to Petition for Writ of Certiorari, page 15.

tioners' counsel squarely held that coercive package licensing of patents is a violation of the antitrust laws (*Hazeltine v. Zenith*, supra). While Petitioners urged the antitrust violation below, the subject cases are now seen by Petitioners as being of wider public interest and as having a greater impact on the economic life of the country than was heretofore thought to be the case for they are now seen to involve not only violations of the public policies underlying the patent laws and the antitrust laws, but also to present for the first time to this Court the question as to whether coercive package licensing is a *per se* violation of the antitrust laws.

As to the second new question the perception of this question came about by way of the *Rocform* case decision. This decision was not published until December 21, 1964.

Only after study by counsel for Petitioners of the *Rocform* decision, wherein the Court equated "coercion" with the "mandatory" aspect of a package licensing policy, did it become apparent as to what was the basic nub of distinction between the Third Circuit holding in *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 729, cert. denied 361 U.S. 902, rehearing denied 361 U.S. 973, of patent misuse based upon the existence of a mandatory package licensing policy and the Ninth Circuit holding in the subject cases of no misuse despite the existence of a mandatory package licensing policy.

CONCLUSION

The decisions in the *Hazeltine* and *Rocform* cases show the current public interest in and the importance of the problem of mandatory package licensing of patents. These cases indicate that the mandatory package licensing practice is favored by patent licensors and will continue to be used as long as any Court permits it. The conflict between the Third and Ninth Circuits on this problem should be resolved by this Court.

Respectfully submitted,

FRANK A. NEAL,

Counsel for Petitioners.

CERTIFICATE OF COUNSEL

I hereby certify that the foregoing Petition for Rehearing is presented in good faith and not for delay and is restricted to grounds specified in Rule 58 of the Rules of this Court.

FRANK A. NEAL,

Counsel for Petitioners.

(Appendices A, B and C Follow)

Appendix A

In the United States District Court
Northern District of Illinois
Eastern Division

Hazeltine Research, Inc., Plaintiff, vs. Zenith Radio Corporation, Defendant.	Civil Action No. 59-C-1847

FINDINGS OF FACT AND CONCLUSIONS OF LAW WITH RESPECT TO THE ANTITRUST ISSUES RAISED IN THE ANSWER AND COUNTERCLAIM.

Pursuant to Rule 52(a) of the Federal Rules of Civil Procedure, the court hereby makes the following findings of fact and conclusions of law:

[*Antitrust Issues*]

I. The antitrust issues raised in the answer to this patent infringement suit and in the counterclaim for damages and injunctive relief were separately tried following the trial of the patent issues. Defendant in its answer asserted the affirmative defense that plaintiff was misusing its patents, including the patent in suit, in violation

of public policy and the Sherman Act (15 U.S.C. §§ 1 and 2) and that it, therefore, came into this court with unclean hands and is therefore barred from receiving any relief in this action. Defendant also filed a counterclaim for damages and injunctive relief pursuant to Rule 13(a) of the Federal Rules of Civil Procedure, Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1, 2) and Sections 4 and 16 of the Clayton Act (15 U.S.C. §§ 15, 26).

II. Defendant-Counterclaimant Zenith Radio Corporation, is a corporation organized and existing under the laws of the State of Delaware with its principal place of business located at 6001 W. Dickens Avenue, Chicago, Illinois, and is now and has been continuously for more than 43 years last past engaged in the development for sale and use and in the manufacture, sale and use of radio apparatus and receiving sets, and since the advent of television, television receiving sets throughout th United States and in foreign commerce, and during said period has built up a large volume of business in manufacturing and selling as the demand therefore has existed and will continue to exist, and in the shipment and sale of such apparatus in commerce between the various states of the United States and in foreign commerce, and said counter-claimant is now and has been engaged in said commerce during all of the period above stated and during all times material to this counterclaim.

[*Patent Holding Company*]

III. Counterdefendant, Hazeltine Research, Inc., the party plaintiff in this suit, is an Illinois corporation owned and operated as a wholly owned subsidiary of

Hazeltine Corporation, a New York corporation, engaged in the manufacture and sale of electronic equipment and devices. The parties stipulated that for the purposes of this litigation Hazeltine Research, Inc. and its parent, Hazeltine Corporation, would be considered as one entity operating as a patent holding and licensing company, engaged in the exploitation of patent rights in the electronics industry in the United States and in foreign countries. The gross income of the Hazeltine enterprises approximates $47,000,000 per year.

IV. For many years plaintiff has accumulated a large number of patents, domestic and foreign, for use in its patent licensing business in the electronics industry. At the time of the filing of this suit Hazeltine had over five hundred patents and patent applications in its licensing portfolio.

[*Package Licensing*]

V. Plaintiff's policy in licensing electronics manufacturers in the United States was to grant a so-called standard package license which conferred on the licensees for a five-year period freedom from any charge of infringement under all present as well as future Hazeltine patents issuing during the term of the agreement. Royalties were required to be paid on the licensee's entire production whether its products employed any or none of the Hazeltine patents. The license was in effect a covenant not to sue the licensee or its customers should Hazeltine decide within the license period that the manufacture and sale of any particular apparatus infringed upon any of its patent rights.

VI. Hazeltine filed numerous patent infringement suits against manufacturers who refused to sign its license agreement.

VII. Prior to the instant controversy, Zenith had the standard Hazeltine package license and in May of 1959, toward the close of the last five-year license period, Hazeltine requested that the license be renewed for another five-year period at the then package rate of $50,000 per year. Zenith refused, contending that it did not require a license under any of the patents in the package and Hazeltine countered by asserting that Zenith was infringing at least four of the Hazeltine patents in the manufacture and sale of monochrome television receivers (at that time Zenith was not manufacturing color receivers). At the same time Hazeltine made an alternative proposal to Zenith, offering to grant a monochrome license in accordance with the following formula:

Any one patent in the package would be licensed at 50% of the royalty rate for the entire package of over 500 patents and patent applications. Any two patents would be licensed at 80% of the package rate. Any three or more patents would be licensed at 100% of the package rate. Hazeltine reserved the right to sue for infringement of any patent not licensed. All licenses would otherwise be subject to all the terms and conditions of the standard package form of license and would require payment of royalties on all production during the five-year term of the license irrespective of whether any patent was employed or not. The license would not cover color television receivers.

Zenith refused to sign either of the proposed agreements and on November 20, 1959 the instant suit was filed.

VIII. With the suit or file and at issue, Hazeltine continued its attempt to persuade Zenith to sign the package license. During the course of discovery proceedings Hazeltine informed Zenith that in addition to the patent in suit, Zenith was infringing at least 9 designated Hazeltine patents and applications in the manufacture and sale of its color television receivers. The old form of standard package license under all the Hazeltine patents was again tendered to Zenith for signature and Zenith again refused to sign it.

IX. On April 11, 1962, Hazeltine submitted to Zenith a license proposal for color television which provided an annual royalty rate of $435,000 merely for the 9 patents asserted and an annual rate of $500,000 for a license under all of Hazeltine's patents and patent applications for color television. However, if the standard package license covering all of Hazeltine's patents, for monochrome as well as color, were signed, the maximum royalty rate would be $150,000, the same as the rate in the Hazeltine-RCA package license (later raised to $200,000). Zenith refused these proposals on the grounds that they were obviously designed to force Zenith to take the package license which it did not want or need; that Zenith could not place itself at a competitive disadvantage by taking a license under only 9 patents at $435,000 a year rather than signing the package license containing all Hazeltine patents at the package rate of $150,000 per year.

[*Alternative Package Arrangements*]

X. Hazeltine continued its efforts to persuade Zenith to sign the standard package license before this case could be brought to trial. In March 1963, as the case approached the final pre-trial conference, Hazeltine made the following proposal to Zenith:

It grouped together the nine patents and one application which were claimed by Hazeltine to be employed in the manufacture of Zenith color receivers. It placed a maximum royalty on this package of $275,000 per year but for color receivers only. For the entire package containing all of Hazeltine's then existing patents for color television, an annual maximum of $300,000 was set and for all present as well as future patents issued during the license period an annual maximum of $310,000 was demanded for color television alone.

In this same license proposal, Hazeltine offered its entire package of present and future patents, unspecified, for both monochrome as well as color receivers for an annual maximum of $200,000.

Under this proposal, a license could be taken, if desired, under only two of the ten patents asserted against Zenith's color receiver but it would bear an annual maximum royalty in excess of $200,000 and would license only color receiver production, whereas the entire package of over 500 patents and applications for both monochrome as well as color receivers would bear an annual maximum of $200,000. This proposal was obviously designed to persuade Zenith to sign the standard package license agreement which it was unwilling to do and presented to Zenith management the following alternatives:

1. Endure trials and possibly appeals on at least nine patents at a total estimated cost of over one million dollars, plus damages in the event any or all of the suits were lost.

2. Take a license under the package of ten patents and applications at a cost of $275,000 per year for color television, or a license under the entire package of existing Hazeltine patents for color television at a cost of $300,000 per year, or at a cost of $310,000 per year a license covering existing and future patents of Hazeltine for color television for a five-year period. In each case Zenith would be obliged to make the royalty payment whether any of the patents licensed was used or not in Zenith's color receiver. This would still leave Zenith's entire monochrome production open to continuous attack by Hazeltine, and plaintiff's counsel had already claimed that Zenith's monochrome receiver infringed at least three patents in addition to the patent in suit.

3. Take a license for color television under two patents selected from the package of ten and pay over $200,000 per year, but this would expose Zenith's color production to the assertion of any or all of the color patents not licensed and would subject its entire monochrome production to the assertion of any of the hundreds of patents in the Hazeltine package.

4. Take the standard package license under all patents and patent applications of Hazeltine, present and future, for both monochrome and color television at an annual maximum of $200,000 per year. Over a five-year license period it would cost $500,000 to $550,000 more for a license under the small group of ten patents for color television

alone than for the entire Hazeltine package covering over 500 patents and applications for monochrome as well as color television. In addition, the full package license would remove the risks of further protracted and expensive litigation or harassment whereas the more expensive license under less than the entire package would leave Zenith and its customers exposed to renewed charges of infringement based on any or all of the remaining hundreds of existing Hazeltine patents as well as all patents issuing during the term of the license. The only practical answer would be to accede to Hazeltine's demand and accept a full package license.

[*Economic Coercion*]

XI. Plaintiff's offer to license any one of its hundreds of patents for monochrome at 50% of the package rate, any two at 80% of that rate and any three or more at the full package rate was an attempt by economic coercion to force the taking of the package. This is clear from the fact that plaintiff had asserted that Zenith was infringing at least 4 patents in its monochrome receivers. Moreover, the reward demanded by plaintiff for a license under less than the full package of patents is in no way related to the quality of the patents since the price is determined solely by the number of patents chosen and most of the patents in the package are characterized by Hazeltine itself as "insignificant."

XII. In all of its proposals to Zenith, Hazeltine insisted as an alternative to litigation that Zenith for a period of five years pay royalties in large sums based on its entire production of receivers whether or not any

Hazeltine patent was employed in any way in its products. Plaintiff thus insists that royalties be paid on admittedly unpatented apparatus.

[*Damages*]

XIII. As of the date the trial began Defendant had been injured in its business and property as the proximate result of the acts and demands of Hazeltine, referred to above, in the amount of $50,065. Defendant has been forced to make expenditures of money and to use the time of its officers, employees, and counsel to defend against this patent infringement suit and by virtue of Hazeltine's threats of suits on other patents, defendant has been forced to expend substantial amounts of money to investigate the scope and validity of the patents asserted. The injury to Zenith's business was occasioned by the necessity that defendant make a choice among alternatives each of which had an adverse economic effect on its business. It was forced either to cease manufacturing and selling its television receivers, pay tribute with consequent increase in its costs or incur the expenses incident to the defense of protracted patent litigation. Although defendant's choice determined the nature and amount of the resulting damages, it was the necessity of having to choose that occasioned the injury.

XIV. In its counterclaim Zenith also seeks damages and injunctive relief based on plaintiff's conspiratorial activities with foreign cartels or patent pools in England, Canada and Australia which have curtailed Zenith's export business.

The British Patent Pool

XV. The dominant radio and electronics companies in Great Britain set up the British Patent Pool into which flow thousands of patents owned or controlled by the members and those affiliated with them in the plan. Among these companies are Electric & Musical Industries Ltd., General Electric Company, Ltd., Marconi's Wireless Telegraph Co. Ltd., Philips Electrical Ltd., Pye Ltd., Murphy Radio Ltd., Rank Cintel Ltd., Standard Telephone & Cables Ltd., Gramophone Co. Ltd., E. K. Cole Ltd. and Cossor Ltd. The Hazeltine inventions and patents have been funneled into the Pool pursuant to an agreement with General Electric Co. Ltd. and the share of the Pool's income allocated to these patents is split between General Electric Co. Ltd. and Hazeltine. Pursuant to this arrangement British inventions controlled by General Electric Co. Ltd. are licensed to Hazeltine for exclusive licensing use in its American territory and are included in its United States package licensing activities. The Hazeltine-General Electric Co. Ltd. exclusive agreements were specifically devised to get the Hazeltine patents into the British Patent Pool in a manner which would provide for G. E. C. maximum bargaining power vis-a-vis the other Pool members on the division of the Pool income.

[*Restrictions on U. S. Exports*]

XVI. Pursuant to these arrangements, General Electric Co. Ltd. on its own behalf and on behalf of Hazeltine entered into successive pooling arrangements with the

other members of the British Pool wherein and whereby it was agreed that the Hazeltine patents along with the patents of all of the Pool members be licensed in the territory of Great Britain solely by the Pool and on terms and conditions determined by the members of the Pool. Each of the participating parties in all of the interrelated agreements, including Hazeltine by virtue of the exclusivity of its joint arrangements with General Electric Co. Ltd., contractually pledged that during the period of the agreements no license would be issued that would permit the export of radio and television receivers from the United States into the British market and that the only license employed by the Pool would be a standard package license limited to local manufacture. Hazeltine has been participating in this plan and arrangement since 1938, is currently participating in it and intends to continue its participation.

XVII. Hazeltine has had full knowledge of the various interrelated agreements under which the Pool operates and has operated and of the purpose and effect of the plan which is to protect the British manufacturers in the Pool against competition from television receivers made in the United States and other countries. Hazeltine contends that it has entered into these arrangements because in that manner it can obtain more income from its English patent properties than it could through its own individual effort.

[Licensing by the Pool]

XVIII. The Pool has always issued one form of license which, like the Hazeltine package license in the

United States, covers all of the patents in the pool and requires payment of royalties on all of the licensees' production whether or not any of the patents are employed. The effect of this plan is to amass all of the patents for assertion against anyone not licensed, to prevent importers or foreign manufacturers from entering the market and to preclude the possibility of any attack by the licensees on the validity of any one patent.

[*Policy of the Pool*]

XIX. The policy of the Pool was early stated to be to cooperate in the division of territories provided by the plan and "not knowingly [to] assist any [American] company to sell in England under the protection" of the Pool patents apparatus manufactured in the United States and not licensed under the patents of the Pool's American participants. RCA and General Electric, like Hazeltine, for many years participated in the British Pool. However, as the result of antitrust litigation brought by Zenith and by the Government, RCA and General Electric were forced to cease their participation in the plan.

XX. Initially the strength of the Pool was drawn from patents on radio receivers and with the advent of television, the power of the Pool became greater than ever. Color television is the most recent innovation in the home entertainment field and Hazeltine has now become an even more important factor in the British combination because of its color television patents which Hazeltine contends has given it a "dominating position" in the color television field.

[*Exclusion of Imports*]

XXI. For years Zenith made every effort to export home receivers to distributors and dealers in the English market. On each occasion, however, the Pool threatened its distributors until they ceased buying Zenith products and no substantial trade outlets could be found which would risk handling the line since the Pool would not license the sale of imported merchandise.

XXII. As a part of the settlement of antitrust litigation brought against RCA, General Electric and Western Electric, Zenith was in 1957 granted royalty-free world-wide rights under the inventions and patents of these companies and began to ship radios to the British market. The Pool could not assert any of these rights to prevent importation and since all basic radio patents have expired, Zenith has been able for the first time to export to and sell its radio receivers in the English market. This is not true of television apparatus however. The Pool is armed with thousands of patents from the Pool members including the British counterparts of patents asserted by Hazeltine against Zenith in the United States. Zenith has been constrained from entering the British television market by the threat of the assertion against it of pooled patents, although Zenith has successfully engineered sets for the British market and has shipped some to its English distributor with the hope that the injunctive relief sought in this suit would be granted and business on a commercial scale could be conducted.

XXIII. The manufacture in the United States of receivers for sale to exporters here or directly to importers

in England (or in Canada and Australia where corresponding patent pools are operating) would risk further charges by Hazeltine of infringement of the United States patents asserted against Zenith here and Hazeltine, by virtue of its exclusive arrangements with the English companies, is contractually unable to grant a license to manufacture in the United States for export to and sale in England under the British counterparts of its domestic patents. Hazeltine's United States package license expressly states, in compliance with the restrictions involved in the pooling arrangements, that no license is granted under any patent rights of countries foreign to the United States.

XXIV. Hazeltine has always told its licensees in the United States that as a matter of policy it would never collect a second royalty on sets exported to foreign countries "where Hazeltine had complete control over its patent situation" but that with respect to England, Canada, Australia and New Zealand, where Hazeltine patents are included in an industry-wide pool, the American licensees would have to make their own arrangements with such Pools.

The Patent Pool in Canada

XXV. The patent pool existing in Canada is called Canadian Radio Patents Limited. This organization was formed in 1926 by the General Electric Company of the United States through its subsidiary, Canadian General Electric Co. and by Westinghouse, through its subsidiary, Canadian Westinghouse. The shareholders of Canadian Radio Patents Limited are Canadian General Electric, Canadian Westinghouse, Standard Radio Mfg. Corp. Ltd.,

the Canadian subsidiary of Philips of Holland, Canadian Marconi and Northern Electric (an affiliate of AT&T and Western Electric). The Pool has been largely made up of Canadian manufacturers (most of which are subsidiaries of American companies) who were and are competitors of Zenith with respect to sales sought to be made in Canada. The Pool for many years has had the exclusive right to sub-license not only the patents of the member companies but also the patents of Hazeltine, RCA and a number of other foreign companies. Since 1943 Hazeltine has been an active participant in the activities of the Pool and has been receiving a substantial share of its profits. The Hazeltine patents go into the pool pursuant to an exclusive license agreement between Hazeltine and Canadian Radio Patents Limited which grants to the Pool the right to include Hazeltine Canadian patents, present and future, in its licensing and litigation activities. This arrangement has been extended to a date beyond the filing of the instant counterclaim.

[*Organization, Purposes and Functions*]

XXVI. The organization, purposes, and functions of the Canadian Pool are, in principle, identical to those of the English Pool. Approximately 5600 patents are amassed for licensing and the only form of license available is strictly limited to manufacture in Canada. It is also a package license under all patents in the Pool and all patents issuing during the term of the license. The chief purpose of the Pool is to protect the manufacturing members and licensees from competition by American or other foreign companies seeking to export their product into Canada.

[Exclusion of Imports]

XXVII. The Pool's campaign against importation of radio and television receivers from the United States is highly organized and effective. Patent agents, investigators and agents of the conspiring companies as well as the Canadian manufacturers and distributors trade associations at the behest of the Pool have systematically policed the market in order to locate and stop the sale of imported receivers and have immediately attacked by infringement suit or threat thereof any dealer found to be selling imported receivers. Warning notices addressed to importers, vendors and users of radio and television receivers advise the trade and the public that only the products of certain named local manufacturers are licensed by the Pool under "basic patents" and that even "users" of unlicensed products are subject to suit on account of patent infringement. Many advertisements run by the Pool went much further. They contained disparaging statements about imported receivers to the effect that they were cheaply made, unsatisfactory in operation, caused fires and were dangerous to use because of "shock hazard."

XXVIII. Mass attacks in the form of infringement suits were made on dealers found to be selling imported American made radio and television receivers. Suits or the threat of suits effectively prevented dealers from handling American made sets.

XXIX. For many years Zenith attempted to set up distribution for its products in Canada but in every instance where a Canadian distributor began to sell Zenith products he was warned by the Pool to stop and return

the merchandise or face expensive infringement litigation. To ward off these attacks Zenith attempted to get a license from the Pool, but in every instance it was advised by the Pool manager that importation would not be permitted and, only local manufacture would be licensed.

XXX. As a part of the settlement in the Zenith litigation against RCA, General Electric and Western Electric which involved the activities of the Canadian patent pool, Zenith obtained world-wide rights under the patents of the defendants and having obtained these and other patent licenses permitting importation into Canada, Zenith began late in 1958 to export to and sell in Canada its radio and television products through its Canadian subsidiary, Zenith Radio Corporation of Canada. The manager of the Pool, Brian McConnell, investigated the matter and informed Zenith that in order to continue this business in Canada, Zenith would be required to sign the Pool's standard package license which did not permit importation and that Zenith would have to manufacture in Canada any products it intended to sell there. The Pool manager further informed Zenith that it was infringing at least one of Hazeltine's Canadian patents and that Hazeltine's patents, as well as all of the other patents in the Pool, with the exception of those owned by Westinghouse and General Electric Company, could not be licensed for importation. With respect to the latter two companies, McConnell stated that they had instructed the Pool not to refuse to license their patents for importation. The notices to "importers, vendors or users of radio and television receivers" warning them not to purchase imported sets continued to be run by the Pool despite

protests by Zenith. Shortly after the aforesaid demand made on Zenith by the manager of the Canadian Pool, the instant suit was filed.

XXXI. Hazeltine before entering into its exclusive arrangement was fully aware of the purpose and the policy of the Pool to prevent the export of American-made receivers into Canada and has worked very closely with Canadian Radio Patents Limited in its licensing activities and its campaign against importation from the United States.

[*Effect of Canadian Law*]

XXXII. The proofs establish as a fact that in the circumstances of this case the Canadian Patent Act does not require the Pool to refuse to license importation, as contended by plaintiff. Nor does the Act penalize in any way a patentee who licenses for importation where, as in this case, there is being carried on extensive manufacturing in Canada under its patents.

The Australian Pool.

XXXIII. The dominant electronics company in Australia and its controlled territory is and for many years has been Amalgamated Wireless (A'sia) Limited (referred to as AWA). A number of the same companies involved in the English and Canadian cartel arrangements set up a patent pool in Australia identical in principle and purpose to the British and Canadian Pools. The patents of all of the conspiring companies funnel into the Pool which is known as Australian Radio Technical Services and Patents Company Pty. Limited (commonly called ARTS.) The patents flow into ARTS through AWA,

Standard Telephone and Cables Pty. Ltd., N. V. Philips Gloeilampenfabrieken, Electric and Musical Industries Ltd. (owning Marconi's and other rights for Australia), Pye Ltd. and Neutrodyne Proprietary Limited. Neutrodyne is a controlled subsidiary of Hazeltine; the latter company owns seventy percent of its stock.

XXXIV. Under an exclusive license agreement dated September 11, 1928, but still in full force and effect, Neutrodyne is authorized to place all inventions and patents of Hazeltine into the Australian Pool and is required to see to it that all of the requirements, restrictions and provisions of the standard package license of Hazeltine are contained in any pooling license issued thereunder. Sub-licensing rights, existing and future, under all of Hazeltine's inventions have been granted the Australian Pool under this arrangement for 35 years and have been the subject of the only form of license agreement issued by the Pool, a standard package license not referring to any particular patent or invention but to all of the rights of all the conspiring companies. A standard Pool license imposes the restrictions necessary to effectuate the division of territories involved in the overall arrangements. It requires the licensee to agree not to export or import or sell or offer for sale in Australia any radio or television receiving apparatus not manufactured in Australia. Hazeltine has been fully aware of the Pool's plan and policy not to license for importation and has cooperated with and approved the operation of the Pool with respect to all the Hazeltine Australian patents.

XXXV. The standard package form of Hazeltine license covering all patents subject to licensing by the Pool

and requiring royalty payment whether or not any such patent is used in the licensed apparatus, is employed by each Pool referred to in these findings and is also used by Hazeltine in the United States in order to prevent attacks by licensees on any of the patents of the participating companies in any of the markets covered by these findings.

Damages Sustained by Zenith

XXXVI. The foreign commerce of Zenith has been drastically curtailed by the patent Pools in England, Canada and Australia. The damages Zenith has sustained were estimated by experienced officials of Zenith, thoroughly familiar with the business problems and sales potentials in the markets involved. They determined the approximate damages sustained by a thorough study of each of the markets involved and all relevant factors including tariffs, shipping costs and manufacturing problems. Zenith's foreign commerce has been damaged by the Pools in the following amounts during the 4-year statutory damage period:

Canada	
Television	$ 5,826,896
Radio	470,495
England	
Television	8,079,859
Radio	1,169,067
Australia	
Television	625,786
Radio	66,769
Total	$16,238,872

Conclusions of Law

1. The court has jurisdiction to determine the anti-trust issues under the provisions of the Act of Congress approved July 2, 1890, entitled "An Act To Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Act.

[*Packaging Licensing*]

2. Plaintiff's demands on defendant coupled with the bringing of this suit and the threat to bring other suits on other patents constitute an illegal effort to coerce Defendant into signing the Hazeltine package license.

3. The policy of plaintiff, reflected in the demands made on defendant and action taken against it, was to grant no license unless under all of its hundreds of patents for a fixed royalty, is one of unlawful coercion contrary to public policy.

4. The reward sought by plaintiff from defendant for inventions to be licensed in no way related to the quality of the individual patents and under the package license each patent drew strength from the others, thus unlawfully extending the monopoly of each.

5. Plaintiffs' offer to license its patents individually but at royalty rates far in excess of the package rate was never an alternative to its controlling policy to grant defendant a license only under all of its patents. Rather, it was proposed by Hazeltine in the later stages of its negotiations in the instant case to cloak the harshness of the original demand by seemingly meeting the request of defendant in that regard. Although it may be said

that the Hazeltine proposals on the surface were offers to treat of individual patents, the design was quite apparent —to force by unlawful coercion the acceptance of unwanted patents. This constituted an illegal extension of the patent monopolies. Whatever may be the asserted reason or attempted justification of Hazeltine, its efforts to compel defendant to accept a package of patents involved the use of one patent or group of patents as a lever to compel the acceptance of a license under others. Such a licensing scheme under applicable decisions of The Supreme Court is illegal and constitutes a misuse of the patents involved.

VI. There is a further feature of Plaintiff's licensing practices that in and of itself constitutes an illegal attempt to extend the patent monopolies. The license agreement, whether it be under a single patent or under Hazeltine's entire patent package, requires the payment of royalties in large sums for a period of five years on the entire production of the licensee whether or not any licensed patent is employed in any way in the licensee's products. Plaintiff's demands that royalties be paid on admittedly unpatented apparatus constitute misuse of its patent rights and plaintiff cannot justify such use of the monopolies of its patents, by arguing the necessities and convenience to it of such a policy. While parties in an arms-length transaction are free to select any royalty base that may suit their mutual convenience, a patentee has no right to demand or force the payment of royalties on unpatented products.

VII. The defense of misuse asserted by defendant is a valid one.

The Patent Pools

VIII. Every act in furtherance of a general plan to restrain trade and commerce, foreign or domestic, in violation of the Sherman Act, is illegal regardless of whether such act or acts when standing alone and absent conspiracy could be found to be legal.

[*Conspiracy*]

IX. It is fundamental that an unlawful conspiracy may be and often is formed without simultaneous action or agreement on the part of conspirators. Acceptance of an invitation to participate in a plan, the necessary consequence of which, if carried out, is to restrain commerce, is sufficient to establish a conspiracy under the Sherman Act. Knowledge of a scheme that illegally restrains trade and participation in the plan with such knowledge is all that is required to establish a conspiracy under the anti-trust laws and prior agreements need not be shown to have been made between each and all of the conspirators in order to establish a violation of the Sherman Act.

[*Purpose of Pools*]

X. The combinations represented by the patent pools in Canada, England and Australia had as their express purpose the prevention of importation into those markets of radio and television apparatus made in the United States and other countries. Hazeltine knowing of the restrictions against imports imposed by those Pools nevertheless chose to permit its patents to be used in furtherance of the scheme and thereby obtained a substantial share of the Pool's income. It thereby became a co-

conspirator and legally liable for all the acts of the Pools and its members performed in furtherance of their patent licensing plan to divide markets and prevent competition from imported sets.

XI. Hazeltine's method of placing its patents in the foreign pools—the use of exclusive license agreements either directly with the Pool as in Canada or through a pool member, as in England, or through a subsidiary, as in Australia—is the traditional means employed in the formation of illegal cartels and it is no defense to say that the particular exclusive licenses to which Hazeltine was a party did not in and of themselves impose the illegal restriction. The character and effect of a conspiracy are not to be judged by dismembering it and viewing its separate parts but only by looking at it as a whole.

[*Intent*]

XII. Hazeltine's defense that it had no intent to restrain trade and that it participated in the Pools for business reason has no legal validity. If good business reasons and expressions of good intent would serve as a defense for restraining trade, the Sherman Act would be rendered impotent and would afford no aid to the free flow of commerce.

[*Applicability of Sherman Act*]

XIII. Hazeltine's claimed defense that conspiracies by American companies with companies abroad are governed solely by foreign law and are not violative of the Sherman Act has no legal validity. It is well established that a conspiracy to restrain the domestic or foreign commerce

of the United States to which any American company is a party violates the Sherman Act irrespective of the fact that the conduct complained of occurs in whole or in part in foreign countries.

XIV. By virtue of its arrangements in connection with the Pools in Canada, England and Australia, Hazeltine has violated Section I of the Sherman Act.

XV. Counterclaimant has established that it has been injured in its business by virtue of the unlawful conspiracy and acts performed in furtherance thereof. As a co-conspirator Hazeltine is liable for those damages.

XVI. Counterclaimant is entitled to the injunctive relief sought in the counterclaim.

/s/ R. B. Austin,
United States District Judge.

Appendix B

District Court, E. D. Michigan, S. Div.

Roeform Corporation v. Acitelli-Standard Concrete Wall, Inc.

No. 22739 Decided June 25, 1964

Machrowicz, District Judge.

This is an action for infringement of a patent on a "Prefabricated Wall Form" used for casting concrete walls.

Defendant filed an answer, denying validity of the patent and its infringement, as well as a counterclaim for damages, charging violations of antitrust laws and misuse of the patent in suit. The claim for affirmative relief based on alleged violations of antitrust laws was later withdrawn and the claim of misuse of the patent was asserted as an additional defense.

In the course of pre-trial hearings counsel agreed to a trial on the issue of misuse only, the remaining issues to be presented in a second phase of the trial if the Court finds that there was no misuse of the patent.

A trial was had on the issue of misuse of the patent. Defendant stipulated, for the purpose of this phase of the trial only, that the Court may assume plaintiff has established a prima facie case of validity and infringement so that defendant could proceed immediately with proofs on the defense of misuse. Both sides presented evidence on this issue.

Findings of Fact

1. Plaintiff, Rocform Corporation, is a Michigan Corporation with a principal place of business in Oak Park, Oakland County, Michigan.

2. Defendant Acitelli-Standard Wall, Inc., is a Michigan Corporation with a regular and established place of business in Detroit, Michigan.

3. Plaintiff is a manufacturer of equipment and supplies for use in pouring concrete walls. It is the owner of certain combination patents, including the patent in suit, relating to forms for pouring concrete walls.

4. The patent in suit, No. 2,526,529, issued on October 17, 1950, is a combination patent for a "Prefabricated Wall Form". The form consists of wood panels connected together edge to edge by means of suitable clamps. The panels are assembled together into two parallel walls. Concrete is poured between these walls and allowed to harden or set, the clamps are then released and removed, the panels are disassembled, and the form is ready for re use in casting another wall.

The invention is described in the patent as a collapsible wall form composed of relatively few simple parts capable of being readily erected and disassembled with a minimum amount of labor; the sections are releasably secured in assembled relationship by devices exceedingly simple to manipulate and which cooperate to securely hold the sections in proper relationship during pouring or introduction of the composition material therebetween.

5. The wall form or claimed combination of the patent in suit is an assembly of the following elements:

(1) Wall sections or panels with (2) attached walers (horizontal metal reinforcing strips secured to the panels) with the panels secured edge to edge by (3) clamps having slidable parts which engage (4) pins on the panel to form two parallel wall forms between which the concrete is poured and (5) tie rods, held together by (6) tie rod clips, extending between the wall forms to space the parallel walls.

6. All patents issued to plaintiff, in addition to the patent in suit, were introduced in evidence by defendant, one issued prior to and nine others after the date of issuance of the patent in suit. Artil Arrighini, plaintiff's president, is patentee or co-patentee in all but one of plaintiff's patents. The patent in suit is cited as a reference in the patents hereinafter described which are identified by an asterisk.

Patent No. 2,251,775, which expired in 1957, is for a "Concrete Form", sufficiently economical and flexible in design to allow its use in all types of building projects, to pour concrete footings and wall sections in one operation. It comprises a plurality of light-weight sections capable of being readily joined together in the field. This patent is cited as a reference in the patent in suit. It is apparent from an examination of this patent and the one in suit that both cover a basic wall form but that the one covered by the patent in suit is superior to the form patented earlier. The earlier invention also rendered it possible to pour concrete footings and wall sections in one operation to form an integral one-piece construction.

Patent No. 2,511,829, issued on June 20, 1950, is for a "Form for Composite Walls having a Sill" and is cited

as a reference in *Patent No. 2,845,684* for a "Prefabricated Form with Sill Member", described in the patent as an improvement in the means for forming an offset or sill. At the present time devices of these two patents are not being used by plaintiff.

Patent No. 2,727,294 * is for a "Wall Form and Clamping Means Therefor" which holds the walls of the basic wall forms in a predetermined spaced relationship during the pouring operation and, in order to give the joined wall sections a smooth and uninterrupted surface, holds such adjacent sections in alignment or in edge to edge relationship.

Patent No. 2,896,300 *, issued on July 28, 1959, is for an "Outside Corner Clamp for Prefabricated Wall Forms". This invention provides clamps which define corners of the angularly related panels of the wall form and prevent possibility of spreading of the panels during pouring operations. The specific device disclosed in this patent is not presently used because of an improvement over such device.

Patent No. 2,789,337 *, issued April 23, 1957, is for an "Inside Corner Structure for Prefabricated Forms for Composition Walls" and relates to improvements in the structure provided to form corners of the composition wall. While this patent was issued earlier than Patent No. 2,896,300, application therefor was filed earlier.

Patent No. 2,882,583 * for a "Prefabricated Form for Composition Walls" was issued on April 21, 1959. The basic wall form covered by the patent in suit includes panels with walers attached thereto. This invention provides for a construction of the walers and for use of

stirrup pins and a brace therewith in an arrangement so that the brace assists in supporting the load applied to the panels by the composition material during pouring operations, and at the same time, supplies a catwalk for the workmen.

Patent No. 2,960,743 issued on November 22, 1960 is for a "Concrete Wall Form Construction and Adapter Clip Therefor" and relates to a device called an adapter clip which enables varying spacing between the panels of the basic wall form in order to produce concrete wall structures of different widths.

Patent No. 2,944,344, issued on July 12, 1960, is for a "Cork Tool" used for filling holes left by tie rods in the poured wall after stripping of the wall and removal of the tie rods.

Patent No. 2,751,308 is for cement paint.

7. In 1952 plaintiff initiated a licensing program for use of its so-called "Rocform System" which it describes in its standard licensing agreement as "a system of prefabricated composite wall forms and patented hardware and accessories used for the construction and erection of concrete walls and structures". The same description is used in advertising for promotion of the Rocform System and is found in answers to interrogatories submitted by defendant requesting that plaintiff describe the Rocform System in detail.

8. Under provisions of the license agreement,

> Licensor grants to licensee a non-exclusive license to use the Rocform System in accordance with terms thereof, agrees while the agreement is in effect to sell

to licensee all necessary Rocform panels and hardware and to replace and repair without charge worn out or damaged hardware, and authorizes use of the words "Rocform System" in promotion and advertising;

Licensee agrees to pay for the equipment and to pay a license fee for each basement he casts (license fees vary from approximately $10.00 to $25.00 per basement cast, depending on size);

It is acknowledged and agreed that "certain features, hardware and accessories used in and being a part of the Rocform System" are covered by patents and licensor stipulates that any further improvement in the system shall be available to licensee for use under the agreement;

The agreement and license is revoked, remanded and terminated upon default in payments or in any condition imposed by the license on use of the system.

9. At the present time approximately one hundred eighty-nine (189) licenses use the Rocform System in Michigan and other states; all such licenses were granted to those engaged in the business of constructing concrete walls or who were about to enter upon such business at the time of the license grant.

10. Plaintiff manufactures for and sells and delivers to licensees only, but not in the regular channels of trade, equipment necessary for operating under the Rocform System, recommending or suggesting to a licensee purchase of a "package" or kit suitable for the type of construction in which the contractor-licensee is engaged. Such

"packages", sometimes called "Alternates A, B, C, or D", include the same parts but the quantity of each varies for casting larger or smaller walls, and consist of elements of the combination patents for wall-forming equipment owned by plaintiff.

11. Specifically, a "package" consists of wood panels with walers, clamps for connecting the panels together edge to edge, tie rods for spacing and holding the paralled wall forms together, and tie rod pins for fastening the tie rods to the panels, all of which are elements of the patent in suit, as well as items which are not elements of this particular patent such as stirrup pins, outside corner clamps, inside corner clamps, round corner forms, clamps and spreaders, and tie rod pullers. Choice of items within a suggested or recommended "package" is left to the licensee. Under the license agreement plaintiff obligates himself to furnish all necessary equipment but licensees are not required to purchase any equipment from plaintiff. All of plaintiff's licensees, however, purchased "packages" although some omitted the wall panels.

12. While the license agreement does not obligate a licensee to purchase any equipment whatsoever but only imposes an obligation on licensor to furnish the equipment upon request, and while the "package" is merely a recommended purchase, all but a few licensees purchased full "packages".

13. Plaintiff will refuse to sell any of the wall-forming equipment to non-licensees. It sells to anyone, without requiring a license therefor, a variety of tools and supplies, such as its patented cement paint, window forms, concrete chutes, and similar items.

14. The only reference in the license agreement as to ownership of patents by plaintiff is the statement that "certain features, hardware and accessories" are patented. No patents are identified therein by number or description of the actual invention covered. Plaintiff has no single patent covering the entire Rocform System nor does it have a patent on a "system" or "method" as those terms are known to patent law. None of the individual elements of the claimed combination of the patent in suit are separately patented. The Rocform System cannot be used, however, without use of one or more of the inventions covered by plaintiff's combination patents, including the patent in suit.

15. Only the basic wall-form patents had been issued when the first seven licenses were granted in 1952. Plaintiff claims no rights under the one patent which expired in 1957, and presently uses the improved form covered by the patent in suit. An unused patent has been replaced by a patent for an improvement, and inventions under patents later than the patent in suit and now used by plaintiff are available to licensees who were granted licenses long before such patents were issued.

16. All but few of the licenses limit the territory within which a licensee may normally designate the territory within which he intends to operate. The territorial restrictions are not rigidly enforced at this time because poured wall contractors follow the general contractors with whom they work into areas in which the general contractor undertakes a construction project (R.185). Testimony of an interested witness hostile to plaintiff as to agreements by plaintiff, with licensors in several areas,

that it will not grant licenses in those areas without consent of other licensees therein is too remote in time to establish what the practice of plaintiff is today. Also, many licenses have been issued in those areas thereafter and this fact does not corroborate defendant's claim that this is plaintiff's policy at the present time.

17. Several other types of wall forms for pouring concrete walls are available to poured wall contractors, such as Symons, Simplex, Universal, Gates, Allen, and there may be others (R.102). Some of the manufacturers in competition with plaintiff do a considerably larger volume of business than plaintiff. These forms mentioned are sold outright and require no license for use but the evidence does not establish that such forms or parts thereof are patented.

18. A poured wall contractor not licensed to use the Rocform System is not prevented thereby from operating or continuing in business but incurs higher costs than a Rocform licensee. Rocform are speedily assembled and stripped, with a saving in labor costs, and eliminate other items of expense such as cost of snap ties ($60.00 to $70.00 per basement) used in another system (R.141). Use of Rocforms is, therefore, a competitive value to contractors in the trade.

19. Defendant is a poured wall contractor. Its president, Peter H. Acitelli, was plaintiff's licensee while operating as a poured wall contractor in his individual capacity. He later incorporated his business as Peter H. Acitelli, Inc., now in bankruptcy. Defendant corporation was organized in 1962 with Acitelli and the Standard Building Products Company as sole stockholders.

20. Defendant acquired most of its equipment from Benjamin Wilk, an officer of Standard Building Products Company. Wilk, as creditor holding a chattel mortgage on the equipment when it was owned by Peter H. Acitelli, Inc., acquired it upon foreclosure of the mortgage. Replacements are purchased by defendant from Kwik-lock Forms Company, plaintiff's competitor in the manufacture of wall-forming equipment. Kwik-lock's president, Frank G. Pauli, Jr., was formerly employed by plaintiff in an executive capacity and was thoroughly familiar with plaintiff's business operations, its licensing program, patent holdings and customers.

21. Within a short time after filing the instant suit plaintiff filed an action in the state court against Pauli and Kwik-lock alleging that said defendants, with knowledge of the provision in plaintiff's licenses for payment of fees, contacted plaintiff's licensees and induced them to repudiate their Rocform license agreements by purchasing Kwik-lock's hardware and thus avoiding payment of license fees under their license agreements. A preliminary injunction issued in that case restrains defendants therein from inducing any of plaintiff's licensees to violate their license agreements with plaintiff. Copies of pleadings in such action were introduced in evidence here and do not show that plaintiff is seeking in that action to restrain Kwik-lock from selling hardware in competition with plaintiff.

22. Plaintiff's standard form of license agreement contains a provision to the effect that the license is individual and personal to licensee, that it is not transferable, without licensor's written consent, and that it shall be used

only by license in the construction business operated by him within the area limited in the agreement.

23. Defendant at no time prior to filing of this suit applied for a license from plaintiff for use of the Rocform System; it was notified by plaintiff, however, that it cannot use the system without a license from plaintiff. Plaintiff offered to license defendant but only under its standard license agreement. Such offer was refused by defendant.

ISSUE

Did plaintiff, through its patent licensing program, misuse the patent-in-suit by attempting to extend the life and scope of its patent monopoly, beyond the boundaries of the patent grant?

DEFENDANT'S CHARGES OF MISUSE BY PLAINTIFF

Defendant contends that plaintiff attempted to and did extend its monopoly improperly and thus misused its patent in suit in the following ways, any one of which is sufficient to forfeit its right to enforce its patent in this infringement suit:

1. Plaintiff, through its patent licensing program, bottomed upon the only useful patent, the patent in suit, restricted competition between and among licensee contractors who use plaintiff's wall forming equipment and thus improperly restrained trade in the poured concrete wall industry.

2. The requirement in the licenses, bottomed on the only useful patent, the patent in suit, that royalties be paid forever, despite expiration from time to time

of certain of the licensed patents, is an improper extension of the monopoly beyond the statutory seventeen-year term of the patent.

3. Plaintiff's restrictions in the license, bottomed on the patent in suit, against the free use of panels and miscellaneous hardware which plaintiff itself had sold, is improper and an extension of the monopoly of the patent in suit, an attempt to control the use of goods already sold and passed from plaintiff's control.

4. The requirement that purchasers pay royalties on and restrict territories of use of plaintiff's unpatented panels and hardware as well as its patented combination, is improper as an attempt to control unpatented goods by the patent in suit.

5. Plaintiff's "package license" is improper since it uses the patent in suit as a lever to compel license under ten additional patents, extending the monopoly and continuing it beyond the life of the patent in suit.

6. Plaintiff's tie-in requirement in its licenses, bottomed on the patent in suit, that purchasers of plaintiff's unpatented panels and hardware accept a license under the patent in suit, is improper as an attempt to expand the monopoly of the patent in suit to cover unpatented goods.

7. Plaintiff's suit against Kwik-lock, an attempt to shut off defendant's source of unpatented replacement hardware, is improper as an attempt to monopolize the sale and purchase of unpatented parts, outside the patent in suit.

8. Including an already expired patent in its licenses, and attempting to force defendant to accept a license based on an expired, as well as on unused patents, is an attempt to continue the monopoly beyond the life of the expired patent, and beyond the scope of the unused patents.

9. Licensing and demanding royalties on the use of a "system or method", activities beyond the scope of the patent in suit, in an attempt to use the patent in suit in areas outside of its scope, a misuse in that it attempts to control activities outside the patent.

Prior to the trial of this case defendant filed a motion for summary judgment as to items originally sold by plaintiff to Peter H. Acitelli, and eventually purchased and used, by defendant, on the ground that the first sale of such equipment carried with it an implied license to use it and extinguished the patent monopoly as to such equipment. The motion was heard two (2) days before trial and taken under advisement. The same arguments are now also advanced at the trial in support of defendant's claims of misuse.

Discussion

Plaintiff's Suit Against Kwik-lock

Defendant's charges of misuse are directed primarily at plaintiff's licensing practice, except for the charge relating to plaintiff's suit against Kwik-lock, as an attempt to shut off defendant's source of replacement parts. Pleadings in that suit, offered in evidence here, indicate that the suit is not one to enjoin manufacture of any hardware but to prevent interference with plaintiff's contractual rela-

tions with its licensees. This defense of misuse has not been established.

Restriction of Licensees' Territory of Operation and Restraint of Trade in the Poured Wall Industry

The control of a patent monopoly carries with it the power to fix royalties for the reward of the patentee, and the patentee may even refuse to license. The patent monopoly can be used to compel acceptance of conditions attached to the enjoyment of the patented device. "Indeed, what conditions can be imposed by the patentees in the exercise of patent monopoly are limited, legal barriers aside, only by the ingenuity employed by the patentees in their attempts to obtain the maximum return for the use of their patented properties." American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769, 122 USPQ 167.

As owner of the patents for use of the combination in the patent in suit and its other combination patents which licensees were permitted to use, under the license agreement, plaintiff could limit the number of licensees in a certain area unless other legal barriers prohibited such restriction.

The findings of fact dispose of the claimed misuse of the patent by restricting areas in which a licensee may operate. In the findings of fact preceding this discussion, the Court found that there were other manufacturers of wall-pouring equipment, doing a larger volume of business than plaintiff, that non-licensee contractors could operate and continue in business using other types of forms than Rocforms, and that the restriction in question did not improperly restrain trade in the poured wall industry. Licensees, under the license agreement, were not restricted

in the price they may charge for their work, and were not restricted to use of the "Rocform System" but could use any type of wall-forming equipment they chose; if they used the Rocform System, however, they paid royalties. These claims of misuse have not been established.

Expired and Unused Patents

The license does not compel a licensee to accept a license for an expired patent or for unused patents. The license merely permits licensee to use any of plaintiff's patents. Licensees who were granted a right to use the Rocform System in 1952 could use the inventions disclosed by the patents then owned by plaintiff, which were the basic wall-form patents. Licensees who obtained grants after the one license expired, were at will to use the basic wall-form involved in this suit, as well as any later patents which improved the Rocform System, as a whole.

Use by Non-licensees of Second-hand Equipment

The claim that the equipment purchased by defendant second-hand is free from the patent monopoly and that restriction in the license attempt to control the use of goods already sold and passed from plaintiff's control, is, in the opinion of this Court, inconsistent with defendant's claim that any competitor can manufacture separate elements of a combination patent without infringement and that defendant has a right to purchase such elements or any of them from such competing manufacturers. The fact that all elements were originally purchased from plaintiff, as a set, at the same time, is not a controlling factor. Since such elements were unpatented, any other manufacturer could sell them, singly, or as a set.

Thus there would be no reward whatsoever to the patentee, as manufacturer of the separate elements, not enjoyed by any other manufacturer. The peculiar circumstances of this case distinguish it from cases in which, for example, unpatented elements are combined in a machine and the machine is then sold, since in that case the machine cannot be sold by a competing manufacturer without infringing. Plaintiff does not dispute that the separate elements may be sold by a competitor and purchased from such competitor by defendant; plaintiff does challenge defendant's right to combine the elements to practice plaintiff's invention or inventions. Wall panels are used in every system other than the Rocform System. According to defendant's own testimony, the elements of the patent in suit can be used in avoidance of the patent in suit, according to advice of patent attorneys. This claim of misuse, not having been established, is not available as a defense. Such ruling of the Court also disposes of defendant's motion for summary judgment which, if granted, would permit defendant to practice the invention by use of the elements in a combination. Defendant, whose president as former licensee had full knowledge of the terms of the license agreement, purchased from a manufacturer who was fully conversant as a former executive employee of plaintiff, with plaintiff's business, its licensing program, and its patents, as found by the Court.

Extension of Royalty Payments Beyond Term of Patent in Suit

The most formidable claim of misuse advanced by defendant, under the facts in this case, is that package

patent licensing under one license extends the monopoly of the patent in suit by requiring payment of royalties after the patent in suit expires.

Plaintiff takes the position that its license agreement is not solely a license of patents, that patents are only incidentally involved therein by a grant of the privilege to use any of plaintiff's patents, and that a sufficient consideration for the royalty payment is found in the agreement by licensor to manufacture and sell all of the equipment required by licenses to set him up in business, to replace or repair hardware without charge, and to permit use of the name "Rocform System" so long as the license is in effect.

The license is, in the view of this Court, primarily a patent license and other features thereof are only incidental to the grant of use of patents. Upon a careful reading of the license agreement it is apparent that the prime consideration for the license fee is the grant to use the Rocform System which cannot be used without using the patent in suit and other patents. The services which are included in the consideration for the license are disproportionate to the license fees stipulated therein.

The agreement to furnish to licensee the unpatented separate elements of the combination patent in suit is a convenience to a licensee as he will be assured of having working tools for practice of the Rocform System but such unpatented elements or parts are also manufactured by and available from a competing manufacturer or manufacturers, as this suit indicates, such consideration for payment of the license fees is not, therefore, of paramount importance to the licensee.

Under the license agreement plaintiff undertakes to replace or repair the hardware used to practice the Rocform System, without charge, during life of the license agreement. The equipment used by a licensee includes wall panels, made of wood, which are subject to damage much more readily than the sturdy metal hardware. There is no agreement to repair or replace panels. According to the evidence, the cost of repairs or replacements of the hardware is nominal, and replacements can be purchased from competing manufacturers.

Permission to licensee to use the name "Rocform System" in advertising and promotion was not even included as a consideration in earlier licenses.

Combined, the considerations for payment of the payment of the license fees by licensees, are minimal as compared to the privilege of using the inventions under plaintiff's patents.

The patent for the basic wall form covered by the patent in suit will expire in 1967 and the invention will then be in the public domain, available to any contractor in the trade, licensed or unlicensed by plaintiff. The licensee then has the privilege, still, of using the inventions under any other patents which plaintiff has. Those inventions on which plaintiff has a patent at the present time can only be used with the basic wall form, as is apparent from the description of the patents herein. Upon expiration of the patent in suit the consideration for the grant of the license becomes substantially devaluated; nevertheless, if a licensee continues to use the Rocform System and thus to avail himself of patents other than the patent in suit, he continues to pay the same royalty under the agreement

or subjects himself to patent infringement suit if he discontinues to pay the fee but continues to practice the "system".

There is no termination period in the agreement and no provision for a reduction in license fees, the fee remaining standard for each basement cast. The only provision for termination is that which states that the agreement and license stand revoked, rescinded and terminated upon default in payment of any installments or license fees due under the agreement, for a period of thirty (30) days after payments are due, or upon default in any conditions imposed by the agreement on use of the Rocform System. But in that event licensor, under the agreement, holds licensee responsible for all sums due and damages for the continued unlawful use of the Rocform System if licensee continues to use it after such termination. Use of the basic wall form will not then be unlawful but use of the remaining inventions included in the system would subject licensee to a charge of infringement.

Plaintiff cites Ashlock v. Atlas-Pacific Engineering Co., (D.C. N.D. Cal. 1963), 136 USPQ 339, also 139 USPQ 421, for the proposition that there may be other considerations than just a license under a patent which would affect the termination date of an agreement and that the agreement for which such other considerations are paid is independent of and apart from the patent itself. The facts in that case are not analogous to those in the instant suit. Ashlock owned olive-pitting machines on which it had a patent. It leased such machines to olive processors on a three-year basis, it being a custom in the trade for such processors to lease their machines and for machine manu-

facturers to lease them on a three-year basis. Attached to the machines were metal tabs to show that the machines were patented but no reference to patents was made in the leases. A competing machine manufacturer claimed misuse because Ashlock would not grant leases for less than a three-year term although its patent on the machine would expire in two years. The Court there held that the lease was in no way related to the patent, and that such leasing practice, relating to machines Ashlock still owned, was lawful per se. Here, plaintiff owns no tangible property relating to the patent in suit, but it merely licenses use of the patented combination, in return for a royalty for each basement cast by use of the Reeform System.

It was held in the American Securit Co. v. Shatterproof Glass Corp. case, supra, at p. 776, 122 USPQ at 173, that the power conferred by the patent monopoly may be great enough, assuming that the patented process or product is a desirable one, to compel licensee to submit to a condition that it accept licenses under other patents in the same art. It also distinguished between voluntary and mandatory package licensing. We quote from that opinion (p. 777, 122 USPQ at 174):

> "Each patent gives its owner a monopoly in respect to its disclosure, so much and no more. It is a grant of the exclusive right to manufacture, use and sell the invention which is disclosed. That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process, which also happens to be patented. * * * Each monopoly must stand on its own footing * * * Mandatory package licensing is no more than the exercise of the power

created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent but that is too much. The protection, or monopoly, which is given to the first patent stops, where the monopoly of the second begins.

"Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result."

The standard licensing agreement in that suit provided that it shall continue in full force and effect to the expiration of the last to expire of any of the patents. Such provision, the Court held, constituted a patent misuse because it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted. The license in suit does not contain a similar provision; but there is no license for use of the patent in suit alone, the license is for the Rocform System which covers also use of other patented combinations. Anyone desiring to practice the invention of the patent in suit alone, can obtain grant of a license to do so only under plaintiff's standard licensing agreement, not on any other basis. Artil Arrighini, plaintiff's president, upon questioning on the witness stand as to the termination of the agreement, indicated that the license could go on forever. Since the agreement covered use of any of plaintiff's patents, while using the Rocform System, the licensee would be held to payment of the license fee, in undiminished amount, until a time when there were no existing patents. In effect, then, this license agreement

is identical to that involved in the American Securit Co., case, supra, and such effect results in an enlargement of plaintiff's patent monopoly.

Authorities are not in agreement as to extension of a licensing agreement beyond the life of a patent but in this jurisdiction it has been held that parties to the agreement may so provide by their agreement. Starke v. Manufacturers National Bank of Detroit, 174 F.Supp. 882, 122 USPQ 133, affirmed on appeal by the Court of Appeals for the Sixth Circuit in 383 F.2d 117, 127 USPQ 180. No misuse of patent, however, was claimed in that suit, which was one for collection of royalties. In support for the proposition stated the trial court cites, among others, the case of Sproull v. Pratt & Whitney Co., 2 Cir. 108 F. 963, in which the court states that parties may contract as they choose.

In Automatic Radio v. Hazeltine, 1950, 339 U.S. 827, 85 USPQ 378, it was held that it is not per se a misuse of patents to require licensee to pay royalties based on a percentage of sales, though none of the patents were used by a licensee under an agreement which permitted such licensee to use any of plaintiff's patents. The Court found there that the record did not support a claim that a license would be refused to anyone on any one or more of the patents upon refusal to take a license under all patents.

Licensing of several patents in single license agreement does not constitute patent misuse unless element of coercion is present, such as where there has been request by prospective licensee for license under less than all patents and refusal by licensor to grant such license. Eversharp, Inc. v. Fisher Pen Co., 1961, 204 F.Supp. 649, 132 USPQ 423.

Applying the above stated principles to facts in the instant case, if payment of royalties may be extended by agreement beyond the life of a patent, and package patent licensing is not per se illegal, present licensees of plaintiff could contract with it as they choose; if the consideration was acceptable to them, in return for the package patent license and services to be performed thereunder, and it has not been shown that any licensee requested but was refused a grant of a license to use one patent only upon acceptance of a license to use more than one patent, no mandatory package patenting has been established as to such licensees. But plaintiff offered to defendant, and defendant refused, plaintiff's standard license on the ground, primarily, that defendant would be required to continue payment of royalties after expiration in 1967 of the basic wall-form patent, if it entered into such licensing agreement.

It is true that the patent in suit will not expire until 1967 but defendant cannot be coerced to accept now the only type of agreement offered by plaintiff to license use of the equipment defendant owns to practice the invention in suit. Such agreement may, upon expiration of the patent, expose it to litigation at that time under circumstances stated earlier in this opinion. Mandatory package patent licensing, as to defendant, has been proved.

If defendant's hands be unclean in that it made no bona fide application to plaintiff for licensing, or for any other reason indicated by the facts in this case, such uncleanliness will not render plaintiff's hands clean if it is attempting to unlawfully extend its patent monopoly. American Securit Co. v. Shatterproof Glass Corp., supra.

Conclusions of Law

1. This Court has jurisdiction of the parties and the subject matter of this suit.

2. In this action for infringement of a patent by defendant, the defense of misuse of the patent in suit, by attempting to extend patent monopoly beyond the expiration date of the patent, has been established and is a valid defense.

3. Due to misuse of the patent in suit by plaintiff, as owner thereof, this action will be dismissed for want of equity.

An appropriate decree may be entered in accordance with the Findings of Fact and Conclusions of Law.

Appendix C

From the Letterhead of
Naylor & Neal
401 Russ Building
San Francisco 4, California

December 15, 1959

Mellin, Hanscom & Hursh
391 Sutter Street
San Francisco, California

Attention: Jack E. Hursh, Esquire

Dear Mr. Hursh:

This is with reference to the "ultimatum" Landon has presented through you to International Manufacturing Co. to the effect that it must execute a license under both Pace 2,826,307 and Cavenah et al 2,844,255 by December 14, 1959, or face the consequences of an action for infringement of both patents, to be filed December 15, 1959.

Confirming our telephone conversation at the close of the day on December 14, International consulted us concerning the charge of infringement of both patents for the first time on December 14, 1959. We have somewhat more than a nodding acquaintance with Cavenah et al 2,844,255 and would have been prepared to state, with details, a position to you that this patent is invalid. However, we have had no cause (I speak here for ourselves and not International) to inquire into the substance or lack of substance of Pace 2,826,307.

Having now been consulted with respect to the patent to Pace, we are not prepared to advise International with

respect to Landon's proposed licensing arrangement under this patent. We would expect to be prepared to advise the client if we were permitted a period of time, sixty days at the most, to evaluate the patent.

With the thought in mind that once a peremptory first step is taken it may be difficult to brake the subsequent feelings and activities, I am suggesting that you seriously consider along with your client my proposal that the filing of the complaint be deferred until sixty days from date. Depending on our findings it may very well not be necessary for you to file the complaint.

Very truly yours,
Frank A. Neal
For Naylor & Neal

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